



Town of Medway

Financial Management Review

September 2005

INTRODUCTION

At the request of the Medway Board of Selectmen, the Department of Revenue's Division of Local Services (DLS) has completed this financial management review of the town.

We have based our findings and recommendations on site visits by Municipal Data Management & Technical Assistance Bureau (MDM/TAB), Bureau of Accounts (BOA), and Bureau of Local Assessment (BLA) staff members. During these visits, the staff interviewed the selectmen, board of assessors, and members of the finance committee. DLS staff also interviewed the town administrator (both former and current), former accountant, former treasurer/collector, administrative assessor, private auditor, and other municipal office staff and committees. DLS staff examined such documents as the tax rate recapitulation sheet, town reports, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness and other assorted financial documents.

The purpose of this review is to assist town officials and boards as they evaluate the town's financial management. In reviewing the existing financial management, we have focused on: (1) the town government structure in the context of the duties and responsibilities of financial officers; (2) the degree of coordination and communication among relevant boards and officials, (3) the performance of financial operations in such a way as to maximize resources and minimize costs.

The board of selectmen should consider the recommendations contained in this report in formulating overall strategies for improving the town's financial management. Many recommendations in this report can be implemented without a major change in the current structure of town government given sufficient cooperation among town boards and officials.

EXECUTIVE SUMMARY

The town of Medway is located in the northwest area of Norfolk County, near the interchange of Interstate-495 and Route 109. Like many communities in that region, Medway's history and development are the result of three phases of growth.

Incorporated in 1713, Medway began as an agricultural community. It is a community of about 11.5 square miles with relatively level land and bisected by a variety of waterways, including the Chicken and Hopping Brooks and the Charles River, making it a fertile area for farming. Because of the power of these waterways, Medway evolved into a manufacturing center beginning in the mid-19th Century. During this second phase of development, textile and other mills were established and brought a large population growth to the community, as these businesses continued to be major employers for the region well into the 20th Century.

Medway's latest stage of development began in the years after World War II when the state began constructing and/or improving a network of highways. Given Medway's proximity and the emergence of employment centers along the highways, the town began developing as a suburban community. The availability of open, developable land fueled residential development, which continues today. Over nearly the last two decades, the number of single-family parcels has risen from about 2,350 to 3,560, an increase of over 50 percent. With this development, Medway's population has grown. According to the United States Census Bureau, Medway's population increased from 3,744 persons in 1950 to 12,448 persons in 2000, more than tripling in half a century. Since 2000, it is estimated that the town's population has continued to grow to an estimated 12,900 persons.

Often, as a community grows, increasing demands are placed upon town government. Typically, the combination of these pressures and increasing financial and legal complexities of the governmental operations becomes too much for the part-time officials and volunteers serving on independent boards and commissions. Consequently, the methods by which government operates may evolve or change, positioning it to manage efficiently and effectively given limited resources. Otherwise, the community may encounter problems.

Back in the early 1990s, Medway experienced financial management problems in its treasurer/collector's and accounting offices. Backlogs of work had mounted; the treasurer/collector's office did not deposit monies or issue payments timely, and the accountant's office did not have a complete general ledger or reconcile cash and receivable accounts. The town was forced to hire outside contractors because of the extent of the problems in these offices. Eventually, the accountant was replaced, and a new treasurer/collector was elected. Reportedly, these new officials worked tirelessly, improving communication and cooperation, eliminating backlogs of work, establishing operating procedures, and reconciling all accounts routinely during the year. These efforts contributed to Medway's improved financial picture, including certification of positive free cash and a growing balance in the Stabilization Fund.

In response to these problems, Medway began examining its town government structure. Medway established an audit committee (Article 19 of the town by-laws) in 1993. The committee is responsible for advising the selectmen on the procurement and the scope of auditing services. When the audit is

complete, the committee is responsible for providing an objective review of the findings and monitoring the implementation of a corrective action plan, if one is warranted. During 1993, the town also reactivated its capital planning committee (Article 6). The committee is responsible for reviewing and prioritizing capital requests from all departments, which are presented annually in a written multi-year plan, and proposing capital spending given available funding. Furthermore, to improve accountability of the staff, the town began implementing employee performance reviews in 1994. The town also commissioned a consultant that recommended Medway adopt a selectmen-town administrator form of government. Two proposals were presented and approved by town meeting. The town adopted a town administrator by-law (Article 23) and voted to expand the board of selectmen from three to five members. The town has never adopted a home rule charter however.

In 1998, Medway's first full-time professional administrator was hired. According to the town's by-law, the administrator is responsible for the daily operations of the town as well as the appointment and supervision of all department heads under the jurisdiction of the selectmen. The administrator serves as the chief procurement officer, personnel director, contract negotiator, insurance manager, and technology coordinator. The administrator coordinates the budget process, preparing the initial balanced proposal for the selectmen's approval and preparing analyses and updating information as it becomes available. The administrator also provides assistance to the finance committee, which is responsible for considering and making recommendations on all warrant articles presented to town meeting.

Under the new strong management position, the administrator supervised most of the department heads. The few exceptions were positions that are elected or serving independent boards, such as the treasurer/collector, the administrative assessor, and the water/sewer superintendent. In 1988, the town considered making the treasurer/collector an appointed position in order to strengthen and consolidate the financial management activities under the oversight of the administrator. This was rejected, in deference to the incumbent, but later adopted in 2001 when she retired.

It was at about this time that Medway began to encounter problems again. In 2001, not only did the treasurer/collector retire, but the first administrator and accountant also left town service. Since 2001, the accountant's office has had three different department heads. This staff turnover has had damaging effects on the community's financial stability. First, backlogs of work occurred, which each subsequent incumbent had to tackle in addition to daily work. Also, the accountant's office got behind in performing reconciliations, including cash, receivables, overlay balances, and departmental budgets. These problems, in turn, led to a material weakness in the town financial records that were labeled as reportable conditions by the private auditors in the FY2002-FY2004 audits.

Adding to this situation, there is an electric generating plant located in Medway. In 2000, the then operator proposed replacing the aging technology at its plant as well as constructing an additional facility on the property. The proposal would result in additional taxes to the community as well as a \$50 million payment in lieu taxes (PILOT) over 20 years. Unfortunately, the operator went bankrupt so none of the improvements or the revenues materialized. This further complicated Medway's financial situation because, according to town officials, the decision to build a new high school and expand some departmental services were based in part on the projected PILOT revenues to support

these operations. Without this revenue stream and given the continued impacts of development on the town, Medway sought and received voter approval for an FY05 \$1.88 million override to support the new high school, the expanding school costs due to student growth, a growing health insurance burden, and a road improvement program.

Unfortunately, even with the approval of the override, Medway was not able to balance its FY05 budget and set its tax rate timely. With the turnover in the accountant's office, the town was having trouble producing timely financial reports, including revenues, expenditures, and cash reconciliations. Consequently, it was not until after closing the FY2004 books that the town discovered its actual local receipts were over \$200,000 less than budgeted, it incurred a snow & ice deficit of about \$144,400, as well as a trash offset receipt deficit of nearly \$121,200. Without timely and accurate reports, the finance committee could not reasonably recommend amendments to the FY05 budget, thus town officials adjourned the December special town meeting until February. When the town meeting reconvened, the FY05 budget was cut by approximately \$126,200, and over \$324,000 in non-recurring revenues was used to fund recurring operating costs.

During the fall of 2004, town officials continued to grapple with other problems. The town administrator gave his resignation effective June 30, 2005. The treasurer/collector also resigned and an interim department head was appointed to fill a three-month vacancy. Upon taking office in January, the new treasurer had to issue \$5 million in revenue anticipation notes to meet Medway's projected cash flow needs in the absence of setting the tax rate timely. He also had to meet with Moody's Investors Service's personnel prior to renewing \$15.7 million in general obligation bonds in March. Due to Medway's continued use of one-time revenues to fund operating costs, decreasing reserves, and loss of the PILOT revenues, Moody's Investors Service found the town's financial position had deteriorated significantly. Consequently, Medway's bond rating was downgraded from A1 to A2.

Soon after the FY05 tax rate was set, the annual town meeting gathered in June to consider the FY06 budget. Based on the best available information, Medway's total estimated revenues were projected to be less than the combined FY06 departmental requests, some FY05 departmental shortfalls (e.g., health insurance and snow & ice removal costs), and a couple FY04 deficits. It was estimated that Medway was facing a \$2.7 million budget gap. To balance the FY06 budget, the town used more one-time revenues to support its recurring operating costs, made severe service cuts, and planned layoffs. To lessen the service cuts, the town had presented a \$508,000 debt exclusion proposal, which would exclude previously issued debt service bonds, but the voters soundly defeated it with nearly three-quarters of the votes cast against the measure.

As Medway was preparing for its annual town meeting, the accountant submitted the June 30, 2004 balance sheet. Based on the submission, Medway's free cash was certified at -\$870,290. Medway's negative free cash was the result of increasing receivables, overdrawn capital project and special revenue accounts, a revenue deficit, and a health insurance deficit. Needless to say, the existence of a \$269,000 revenue deficit and a \$263,100 health insurance deficit came as a surprise to DLS because the tax rate submission just two months earlier stated that there were no deficits. Upon further investigation, Medway officials informed DLS that the audit had been completed in the fall of

2004 and that an exit audit meeting had taken place in February, at which time the deficits were discussed. Consequently, due to the accountant's false statement about the deficits, the Director of Accounts informed Medway officials on June 27, 2005 that a completed FY05 audit must be submitted and reviewed prior to setting the FY06 tax rate and certifying the free cash as of July 1, 2005. As such, Medway joined a limited group of 11 communities that have been sanctioned due to their unreliable financial submissions.

Despite the town's relatively strong organizational structure, breakdowns in managerial oversight and failure to hold employees accountable contributed heavily to Medway's fiscal problems. By by-law, the town administrator is responsible for day-to-day operations. This includes hiring and supervising staff that are experienced and qualified to perform all aspects of his or her job timely and accurately. As part of this process, the administrator must monitor employee performance on an ongoing basis and document any shortcomings through periodic meetings with staff and written evaluations. The prior administrator did not adhere to the process. Furthermore, the administrator did not hold staff accountable for performing the statutory responsibilities of their offices, such as providing expenditure reports monthly, performing cash and receivable reconciliations periodically, and monitoring spending to avoid potential deficits. The board of selectmen realizes it contributed to the problem by not establishing annual goals and objectives by which to hold the administrator accountable and to judge his performance. They are now putting together a formal process through which they will monitor and evaluate the work of the current and future administrators. This is an important step in reestablishing an effective management structure and gaining the confidence of the public.

Going forward, the selectmen requested our assistance. During the course of our review, we found that Medway is faced with four major problems. First, the town needs to reestablish central management. The selectmen hired a new administrator in July and they are in the process of developing goals and objectives for her. The administrator has begun meeting with department heads in an effort to improve the management of town activities, to respond to issues as they arise, and to keep the town's policymakers fully informed. Second, the prior town administrator was unable to hire experienced financial officers; chief amongst these is the mission critical position of town accountant. Furthermore, due to the excessive staff turn over, including the most recent resignation of both the treasurer/collector and accountant in August, many of the incumbents have little or no formal training to successfully perform their jobs. To retain qualified personnel, Medway needs to provide professional and ongoing training opportunities. Third, there is a need for timely and accurate information. Without current information and financial reports, the community cannot monitor revenue collections and spending patterns, in an effort to avoid deficit spending. Additionally, without timely information, Medway will continue responding to crises rather than moving towards long-term planning and fiscal stability. And fourth, there is a need to win back voter confidence. To be successful, government must operate transparently. It must demonstrate that resources are used prudently to fund services and that management and policymakers are working together for the community at-large. Without this confidence and support, Medway will continue to be mired in controversy.

SUMMARY OF REPORT FINDINGS AND RECOMMENDATIONS

1. Overall Financial Management & Budgeting: Improve town personnel management
2. Overall Financial Management & Budgeting: Create a financial team & conduct quarterly meetings
3. Overall Financial Management & Budgeting: Prepare capital plan & multi-year forecast
4. Overall Financial Management & Budgeting: Establish financial reserve policy
5. Overall Financial Management & Budgeting: Develop a written workplan to address management letter issues
6. Overall Financial Management & Budgeting: Adopt enterprise funds for water and sewer departments
7. Information Technology: Provide computer training
8. Information Technology: Establish an employee computer committee
9. Information Technology: Update the town's Internet website
10. Accountant's Office: Provide timely reports and reconcile all accounts regularly
11. Accountant's Office: Review special account authorizations and balances
12. Accountant's Office: Adopt MGL Chapter 41 §49A
13. Assessing Office: Maintain current values
14. Assessing Office: Adopt accelerated new growth & supplemental tax bill options
15. Treasurer/Collector's Office: Maintain the cash book and reconcile cash timely
16. Treasurer/Collector's Office: Improve the collection process
17. Treasurer/Collector's Office: Attend professional classes and provide cross-training

OVERALL FINANCIAL MANAGEMENT & BUDGETING

FINDING 1: IMPROVE TOWN PERSONNEL MANAGEMENT

The former town administrator stated that the demands of the job forced him to devote such a large amount of time to fielding questions from the policymaking boards and to answering public inquiries that he was not able to adequately supervise the personnel who reported to him. He did not meet with department heads regularly or set goals and objectives. He did not conduct performance evaluations, which were mandated by town by-law. And, he did not address the insufficient levels of training, knowledge, and skills that existed in multiple departments. As a result, well intentioned, yet under qualified and untrained individuals were given important financial duties with little to no guidance or oversight. The more experienced department heads expressed frustration with the lack of coordination among the financial offices and inadequate direction from both the town administrator and the selectmen.

Furthermore, the board of selectmen recognizes that it failed in its responsibility to demand accountability and responsiveness from the town administrator, and lost the ability to conduct adequate oversight of the administrator's office as a result. For example, after years of reportable conditions by the private auditor, the board did not direct the administrator to devise a workplan to address the issues. They also did not intervene when the town missed DOR deadlines and the accountant was unable to produce timely and accurate financial reports. In another example, the administrator exceeded his authority without the board's knowledge. Specifically, we found that the former administrator instructed the former accountant to transfer funding from a wage settlement account to various department budgets to cover contractual increases. This action was illegal because the authority to transfer between appropriations is at the sole discretion of town meeting (MGL Chapter 44 §33B). And lastly, the administrator reportedly did not attend selectman meetings when he was expected to debrief the board on financial matters, and repeated inquiries often would go unanswered.

Moving forward, the board of selectmen plans to set specific written goals and objectives for the town administrator. They will also perform periodic performance reviews necessary to hold the town administrator accountable if the goals, objectives, and deadlines are not met. Without a permanent and effective personnel management and review policy in place, Medway will not return to sound financial operations and regain the confidence of its citizens. The town also will have difficulty attracting qualified candidates to fill vacancies in its most important financial offices.

RECOMMENDATION 1: IMPROVE TOWN PERSONNEL MANAGEMENT

We recommend that the selectmen annually develop goals and objectives for the community. These will reestablish the expectations and performance criteria by which the administrator's job is evaluated. In turn, the administrator should develop similar written productivity targets for department heads. She should meet with each of these employees periodically to discuss and set short and long-term goals and objectives, and to provide feedback on the individual's performance to date. Written goals and objectives should be a part of the employee's personnel file and used as a benchmark against which to judge successes or failures. This will help mitigate any ambiguity with regard to job

responsibilities and expectations. It will also provide a written record if poor performance should ever require focused training and/or progressive discipline.

We recommend that the town seek out and hire experienced and qualified professionals to fill current and future vacancies. As personnel director, the town administrator should make every effort to attract officials with relevant credentials and experience. If she is not able to find qualified candidates in the first round of searching, she should bring the problem to the attention of the selectmen who should then explore options, such as increasing the salary, to attract a wider pool of applicants.

We recommend that Medway provide professional training opportunities for the financial staff. In order for the town's financial offices to operate efficiently and effectively, it is necessary that the staff receive professional and ongoing refresher courses. The benefits of these outside training opportunities are they will provide useful information about current laws and professional practices as well as allow the staff to interact with other municipal professional personnel. This will require that the town annually budget the funding required to have employees attend professional associations and other training workshops as well as making arrangements for office coverage in the absence of the staff for the duration of the class or program.

As a long-term consideration, we also recommend that Medway create a government study committee or pursue a charter commission (MGL Chapter 43B). In our conversations with town officials, several mentioned the idea of creating a financial director post to better oversee the town's finances and budget process. Others showed us that operations are governed by out-dated by-laws, special acts, or traditionally agreed upon procedures. Initiating this process will enable the town to examine its by-laws as well as the distribution of powers among the independent elected policy boards, and review other communities' organizational models. The findings would then be presented to the voters for consideration. However, the town should abstain from making any major changes to its governmental structure until it has first addressed its current management issues.

The difference between the two methods is a matter of timing and legal requirements. A study committee is established by vote of the selectmen or town meeting, and conducts a review of the current organization. The resulting proposal requires town meeting action to submit it to the state legislature for approval as a special act and usually requires voters' approval as well. Alternatively, a charter commission may be initiated by petition, with the voters electing the charter commission members. In this process, both the preliminary and final charter report must be submitted to the Attorney General (AG). The AG will provide an opinion on any conflict between the proposed charter and the constitution or general laws of Massachusetts, which the commission would review. The final proposal requires a majority approval of the voters to implement it. Because of the legal requirements of MGL Chapter 43B, the charter commission process generally takes a longer time to complete.

FINDING 2: CREATE A FINANCIAL TEAM & CONDUCT QUARTERLY MEETINGS

Currently, the town's financial officers and policymaking bodies rely on the town administrator to ensure the efficient and effective coordination of the various financial functions. The work of each individual financial office is compartmentalized in such a way that the staff only interacts with each other when absolutely necessary to obtain specific pieces of information. On multiple occasions,

department heads told us that they were unable to complete their work in a timely manner because they could not obtain sufficient information from other offices. This disconnect has translated into an inability to present current and accurate financial reports to the finance committee, selectmen, and the public. The result of this has been an inability to base policy decisions on sound financial data, a breakdown in communication and trust between the policymakers and staff, and a sharp decline in the public's confidence in the local government.

RECOMMENDATION 2: CREATE A FINANCIAL TEAM & CONDUCT QUARTERLY MEETINGS

We recommend that the town establish a financial management team through the adoption of a by-law. The financial management team should include at least the town administrator, town accountant, treasurer/collector, administrative assessor, and the school business manager and it should meet on a regular basis throughout the year.

The primary purpose of the financial management team is to assist the town administrator in compiling comprehensive financial information for presentation to the town's policymaking bodies. The team can help develop financial analyses, explore the financial impact of future events, and offer early strategies to deal with anticipated problems. It will provide input into the town's cash flow analysis, including the timing of major purchases and the issuance of new debt. Collectively, this committee should review financial documents (e.g., revenue and expenditure reports, balance sheet, audits, tax recapitulation sheet and apportionment of indirect costs to departments) for completeness and accuracy. This information will provide a comprehensive picture of the town's financial health at any point in time.

The team will be actively involved in the budget process. The team will develop revenue estimates, ensuring they are reliable and updated periodically as new information becomes available. The team will ensure that all of the department heads understand the budget process and are able to provide accurate spending projections.

Conducting regular meetings will open the lines of communication among the offices. They will provide a forum at which the team members could raise and resolve the types of interdepartmental issues that currently impede the timely flow of information. Furthermore, the members will become more aware of how each office is dependent on the performance of the others.

Finally, the financial team will ensure institutional continuity if one officer leaves. The team's participation in general financial and budget activities will ensure that more than one person knows all facets that need to be gathered, analyzed, and monitored continually.

We recommend that the town's policymaking boards meet periodically throughout the year to discuss financial issues. On a quarterly basis, the town administrator should present updates jointly to the selectmen, finance committee, and school committee on topics such as the prior year's performance, year-to-date activities, and issues as they come up. Therefore, all of the policymakers would receive the same cohesive message at the same time and be better able to coordinate, develop, and implement their decisions accordingly and with increased confidence.

FINDING 3: PREPARE CAPITAL PLAN & MULTI-YEAR FORECAST

By by-law, Medway has a seven-member capital improvement program committee (CIPC). It is responsible for preparing a six-year capital outlay program, which includes all equipment, construction, and physical improvement that exceeds \$5,000 and has a useful life of more than two years. Historically, the multi-year program was updated annually and a capital budget proposal was presented at each annual town meeting. However, due to limited resources and dwindling reserves, the six-year program has not been maintained and requests are funded on a case-by-case basis, often pitting departments against each other. The CIPC also raised concerns about not being able to make quorum to conduct meetings because of vacancies on the committee and/or absences.

As a part of the budget process, the former town administrator prepared a preliminary revenue and expense analysis for the proposed budget. However, he did not prepare a similar analysis on a multi-year basis as required by his job description. A multi-year forecast of revenues and expenditures is a useful management tool that many towns use to assist them in operating and capital funding decisions and in establishing financial policies.

RECOMMENDATION 3: PREPARE CAPITAL PLAN & MULTI-YEAR FORECAST

We recommend that the CIPC membership be reduced to five persons. Given the recent CIPC vacancies and the trouble most communities have finding volunteers to be appointed to town boards, Medway should consider reducing this committee's membership. Reportedly over the last decade, the committee has often operated with only five members and successfully fulfilled its mission.

We recommend that the CIPC develop and maintain a comprehensive capital plan. With the assistance of the town administrator and the financial team, the CIPC should develop a multi-year capital plan for all town departments and present an annual capital budget to town meeting. These documents should: (1) prioritize the various proposed capital projects; (2) estimate project costs; and (3) list the proposed method of payment (current revenue, debt or debt excluded from the limits of Proposition 2½) for each project. Regardless of funding ability, annual presentation of a capital budget to town meeting has merit. It serves to inform citizens of the community's capital needs and makes them aware of essential capital needs that may be deferred due to financial constraints.

We also recommend that the town administrator develop a multi-year revenue and expenditure forecast. With assistance from the financial team, the town administrator should produce this forecast for the general fund operations and the enterprise funds. We recommend that the forecast span between three and five years, updating it routinely as new information becomes available. It should be used by the policymakers to evaluate budget requests with multi-year impacts and to develop long-range financial plans. Used in conjunction with a well-developed capital plan, multi-year forecasting will also help the town determine whether capital projects should be funded from current revenues, the issuance of new debt, or new debt that is excluded from the limits of Proposition 2½.

FINDING 4: ESTABLISH FINANCIAL RESERVE POLICY

To help fund unforeseen, one-time and capital expenditures, the town has reserves. Medway now has two enterprise funds, but the surpluses may only be used to support the respective enterprise

operations. Generally, the town has free cash, which is attributed to three factors—revenues in excess of estimates, budgetary turnbacks, and collection of receivables—but the latest certification was -\$870,290 (7/1/04). Another traditional reserve is the stabilization fund, however due to budgetary gaps in recent years, the balance has been drawn down to about \$350,000 from a high of about \$760,900.

Reserve funds provide a community with the flexibility to fund extraordinary or unforeseen expenses after its tax rate is set. In addition, bond-rating agencies recognize the vulnerability of communities with few reserves and consider this lack of flexibility a negative factor. In Medway's March 2005 rating by Moody's Investors Service, it downgraded Medway's debt rating from A1 to A2, in part because of dwindling available reserves between FY02 and FY04.

RECOMMENDATION 4: ESTABLISH FINANCIAL RESERVE POLICY

We recommend that the town establish a financial reserve policy. A formal reserve policy will allow the town to establish a practice of appropriating money to legal reserves for future needs. Appropriations to the reserves should be made annually as a part of the budget process. These reserves should be used to fund unanticipated costs and to make up any shortfalls in the town's projected revenue estimates. Reserves should not be used to regularly fund operating expenses unless provisions are made to replenish the reserves. Reserves are intended to allow a community the flexibility to review and correct its problems over the long run.

FINDING 5: DEVELOP A WRITTEN WORKPLAN TO ADDRESS MANAGEMENT LETTER ISSUES

According to its by-law, the audit committee's responsibilities include the following:

1. Make recommendations to the board of selectmen on the selection of, and scope of services for, an independent auditor.
2. Review the annual financial statements and management reports prepared by the independent auditor and make recommendations with respect thereto.
3. Make recommendations for areas of operations where expanded scope audits or review of the internal controls may be appropriate.
4. Review and make recommendations with respect to the town's financial management practices and controls.
5. Report to the board of selectmen and the town on the status of recommendations the committee has made during the preceding twelve months.

While the audit committee has been active in the selection and hiring of the town's independent auditor, it failed to respond to the audits and did not monitor the town administrator's progress towards meeting the auditor's recommendations. The past three annual audit reports have cited deficiencies in the town's internal financial control, referred to as reportable conditions, that are of such magnitude that they could potentially result in material misstatements of financial condition. The fact that the same reportable conditions have recurred over successive years indicates a need for a more

aggressive approach to examining, monitoring, and improving internal control. Not doing so has contributed to the discovery of revenue and expenditure deficits after the fact and the heavy use of non-recurring revenues to support the town's operations, which negatively impacted public confidence and the community's bond-rating.

RECOMMENDATION 5: DEVELOP A WRITTEN WORKPLAN TO ADDRESS MANAGEMENT LETTER ISSUES

We recommend that the audit committee develop a written work plan, with specific goals, objectives and deadlines, to address each accounting and management control issue raised in the independent auditor's annual report. This plan should be presented to the board of selectmen as well as the town's financial officers. The committee should then monitor the progress of the town administrator and the financial offices towards remedying the problems and meeting the objectives of the plan. The committee should report on this progress to the selectmen on a quarterly basis. The selectmen should then elevate the issues and solutions raised by the audit committee and ensure sufficient attention from both the town administrator and the financial officers.

FINDING 6: ADOPT ENTERPRISE FUNDS FOR WATER AND SEWER DEPARTMENTS

According to town officials, it is the expectation that the water and sewer operations be self-supporting through their respective user fees. As such, the commissioners annually review the user fee rates for the water and sewer services based on the operating and the debt service costs of the respective operations.

By special legislation (Chapter 291 of the Acts of 1908), Medway established a separate water fund. The act authorizes the town to construct and maintain a public water system, to charge revenues to support the water operating costs and any debt service charges, and to use any surplus generated for new construction costs or to reduce water rates. Hence, any surplus (or deficit) that is attributable to the water operation closes to the water fund annually. Unfortunately, the act was written almost a century ago and does not fully address all the current accounting and legal issues facing the town today. Reportedly, due to varying interpretations of the act's intent, attempts have been made to use the water surplus for non water-related expenses and questions have been raised as to how the surplus figure is annually determined. As for the sewer operation, it is a part of the general fund. Any surplus (or deficit) that is attributable to the sewer operation closes to the general fund, thus increasing (or decreasing) the town's certified free cash.

While local governments may account for utility operations using various methods¹, the enterprise fund method best enables a community to fully identify all direct, indirect², and capital costs of providing the service in a consolidated fund. The advantage of an enterprise fund is that the community will know the true cost of providing a service, which assists the community when determining its user fees. In addition, any interest earned on the operating revenues and surpluses, or retained earnings, generated at yearend would remain in the funds. Once a surplus is certified as available (similar to free cash), it may be used to fund operating, capital or debt service costs associated with the specific fund's service.

¹ These include the general fund, a special revenue fund or an enterprise fund (MGL Ch. 44§53F½).

² Indirect costs generally include interdepartmental support, health and insurance costs.

RECOMMENDATION 6: ADOPT ENTERPRISE FUNDS FOR WATER AND SEWER DEPARTMENTS

We recommend that the town adopt enterprise funds for its water and sewer operations by accepting MGL Ch. 44 §53F $\frac{1}{2}$. Enterprise funds will enable the community to fully demonstrate the true cost of these operations, provide information necessary to establish user fees, and clarify the allowable and prohibited uses of retained earnings.

INFORMATION TECHNOLOGY

Medway does not have a formal management information systems (MIS) department. The town hires a consultant, on an as-needed basis, for system maintenance, upgrades, and limited training. While the town administrator is officially responsible for the town's information technology needs and systems, the former accountant became the de facto liaison between the town offices and the consultant because the computer server is located in the accounting office. Reportedly, the new administrator has assumed responsibility for the town's computerized systems again, enabling the accounting office to focus on its primary responsibilities.

The town offices have access to Microsoft Office applications as well as the Internet and electronic mail services. The town's server has virus protection software that is updated daily. The entire system is backed-up nightly, the back-ups are stored in a firebox in the accountant's office, and the consultant monitors the integrity of the back-up system. The town also has established a computer and Internet use policy.

FINDING 7: PROVIDE COMPUTER TRAINING

Previously, Medway used an integrated financial software system, Data National, but the town financial offices converted to the Vadar System on July 1, 2004. The transition between the two systems took place during a period of high turnover in the financial offices. Therefore, many of the people who use the system do not have adequate training and are not able to take full advantage of its capabilities. By contract, the vendor provided a specified number of hours of training during implementation. It is not clear how these hours were allocated amongst the various users, but based on our interviews the amount of training received by key personnel varied greatly. Furthermore, we found that some department heads do not know how to interpret Vadar System's financial reports. These managers expressed frustration with the change in format from the old financial system and are now unable to use system information to manage their departments.

We also found that town offices use a variety of software applications to perform operations and/or maintain data. Often, this information is used by more than one office, but currently there is no means to transfer data electronically between offices and/or software applications. Therefore, information is routinely printed and re-keyed, wasting precious staff time. For example, the building inspector's office issues permits and tracks construction activity, which is shared with the assessors' office. Given the limited staffing and the importance of this timely data, we suggest Medway explore ways to share/exchange data more readily. In another example, the school department uses a different financial reporting system from the town. Consequently, bills are forwarded to the accountant's office to be manually entered into the Vadar System. Given the backlog of work and limited staffing in the accountant's office, we recommended the town explore getting remote access for the school department to enter billing information. Once entered, the accountant's office would review the submissions and backup documentation before adding them to the warrant for the selectmen's approval. Reportedly, Medway is in the process of working with the town's MIS consultant, as well as its systems' vendors, to develop a way to exchange/share data electronically, thereby reducing staff workloads and improving timeliness of information exchanged.

Finally, we were informed that all offices have access to Microsoft Office applications. Unfortunately, most staff have had little or no training on these applications, and some continue to keep manual records.

RECOMMENDATION 7: PROVIDE COMPUTER TRAINING

We recommend that the town administrator work with the MIS consultant to review the level of computer training and skills throughout town hall. The town administrator must ensure that the staff's computer training needs are met on a timely and on-going basis. The financial officers should have up-to-date knowledge of the Vadar System's capabilities and functionalities, as well as training on the various Microsoft Office applications. With formal training and ongoing refresher courses, staff members will become more familiar with applications and will be able to organize records and automate report data. Staff also would be more likely to recognize and take advantage of opportunities to integrate systems, share information electronically, and reduce the time spent re-keying data.

We recommend that the town survey office staff on the data that is shared or repetitively entered and explore ways to transfer this information more efficiently. The town should review data transferability between software applications, develop a database available to more than one office, and explore other uses of remote access. Given the limited staff and resources, exploring ways to operate more efficiently can free up valuable staff time.

We recommend that the town contact the vendor(s) about existing user groups. Whether or not software users have the same problems, peer relationships and the collective analysis that emerge from a user group can be effective in resolving problems. Vendors will know of user groups or can provide a list of communities in Massachusetts using their software.

FINDING 8: ESTABLISH AN EMPLOYEE COMPUTER COMMITTEE

We found that the users of the town's systems do not communicate their technical abilities, questions, or frustrations with their peers. There is little interoffice discussion regarding the types of programs used, problems encountered, or plans for implementing new systems. Even with adequate training, the type of inefficiency that we found in the exchange of data between the building inspector's office and assessor's office may not have been addressed because no forum exists in which to bring such matters to light.

RECOMMENDATION 8: ESTABLISH AN EMPLOYEE COMPUTER COMMITTEE

We recommend the establishment of an employee computer committee. The goal of this committee would be to discuss the various systems that the individual offices use and determine what areas exist for coordination. The committee would work with the MIS consultant and the department heads to ensure that system updates and new applications are compatible with the existing programs before they are purchased and installed. Keeping an open line of communication between the users of the systems will minimize conflicts and missed opportunities for integration. It would also improve interoffice relations by ensuring that each office understands the capabilities and limitations of the different systems.

FINDING 9: UPDATE THE TOWN'S INTERNET WEBSITE

Medway has an Internet website that provides limited information, departmental listings of staff names and telephone numbers, and occasional announcements. However, much of this information is out-of-date. In the absence of useful or complete information, users are directed to call or e-mail the town hall offices for assistance. Increasingly, communities are taking advantage of technology and the Internet to provide complete information to users, thereby significantly reducing interruptions for town personnel.

RECOMMENDATION 9: UPDATE THE TOWN'S INTERNET WEBSITE

We recommend that Medway develop and maintain an up-to-date and informative Internet website. A comprehensive and accurate website would help generate public awareness and confidence. In other communities, user-friendly and informative websites have proven successful in reducing the amount time that town hall employees spend fielding questions in person or on the phone. Several towns have been able to save valuable staff time and resources by contracting out the maintenance of their websites as well as providing on-line payment services for residents to pay their taxes and fees. The convenience of 24-hour on-line payment services enables the collector's office to streamline operations and deposit payments quicker. These services generally charge initial and annual fees that should be weighed against the savings in staff time and resources.

ACCOUNTANT'S OFFICE

The primary responsibility of the office is to maintain the town's general ledger and to perform the accounting functions. Typical accounting functions include reviewing invoices; preparing warrants; producing trial balances, revenue and expenditure reports; maintaining information on town debt; and reconciling cash and receivables with the treasurer/collector. Unfortunately, the town accountant's office has not been able to adequately carry out these duties in recent years. This is mainly due to the following problems: high turnover, insufficient training and experience, and a lack of supervisory or managerial guidance.

The position of accountant is currently vacant. In the absence of the department head, the assistant accountant has been appointed as acting accountant. She has been employed by Medway for two years and had no prior municipal accounting experience. While she has attended a training course provided by the town's private auditor and received other guidance from the prior accountant, her responsibilities are mainly clerical, entering bills, verifying receipts, and fixing posting errors. Because she does not yet have the training or experience to fulfill all the duties of the office, the town hired a consultant. Reportedly, the scope of services is two-fold. First, the consultant will reconcile all accounts outstanding from FY05, close the town's books, and prepare for the FY2005 independent audit. Second, the consultant will assist in the FY06 operations, reviewing bills and identifying problems (e.g., training, procedures, and management reports). Consequently, it is the town's expectation that the accumulated backlog of work will be eliminated and the overall operation and confidence in this office will improve, enabling Medway to attract qualified accountant candidates.

FINDING 10: PROVIDE TIMELY REPORTS AND RECONCILE ALL ACCOUNTS REGULARLY

We found that the former town accountant had not been producing timely internal and external reports. Internal reports include expenditure and revenue reports that are vital in managing departmental budgets and developing a town-wide financial plan. External reports (Schedule A and balance sheet) are required by the Department of Revenue on an annual basis.

According to MGL Chapter 41 §58, the accountant's office is required to provide monthly expenditure reports to all department heads. These reports should include each department's appropriations, expenditures to date, and available balances. It is incumbent upon every department that they review the accountant's reports for accuracy, notifying the accounting office of any discrepancies. Such reconciliation ensures the integrity of the accountant's books and enables all parties to track the spending of the town's funds with reasonable clarity and confidence.

For FY2004 and FY2005, the accountant did not provide expenditure reports consistently to department heads, the town administrator or policymakers. Without these reports, departments were unable to manage their expenditures and the accountant's information was not verified. For example, when invoices are submitted for payment, the accountant must review them to make sure they are legal and sufficient spending authority exists. Reportedly, the former accountant rejected some bills for legal reasons (and may not have notified the department) and/or because her available account balances were not sufficient. Without monthly expenditure reports, a department head would not be able to track running balances, to verify bills were paid timely, or to identify discrepancies with the

accountant's figures. A full set of expenditure reports also should be prepared for the town administrator and policymakers, so they may monitor the community's fiscal position as well as highlight a potential overspending. Consequently, the lack of timely and accurate financial reports has resulted in a widespread level of frustration and lack of reliance on the information provided. Also, based on preliminary FY 2005 closing information, it appears that the town has ten overdrawn accounts that will have to be provided for before setting its FY2006 tax rate.

Revenue reports are not mandated by statute but are highly advisable and an extremely useful management tool. Due to the limitations of Proposition 2½, budgeting is a revenue-driven activity and therefore it is essential that town officials have access to timely financial information in order to make informed decisions regarding town finances. Currently, the accounting office does not produce any revenue reports. Consequently, local officials have no hard data upon which to monitor current year's activities, making course adjustments for revenue that may not materialize, or to project revenues upon which the ensuing year's proposed spending plan is based. Shortfalls in revenue estimates are generally not known until after the close of the fiscal year, by which time, the next year's budget may need to be reduced or new revenues raised to bring the budget into balance.

Annually, the accounting office also prepares external reports required by DLS. Failure to complete or file certain reports timely can have an adverse effect on a community. One report the accountant prepares is the Schedule A, a year-end fiscal statement of revenues and expenditures. This report is annually due on or before October 31st, and failure to file the Schedule A timely can result in the withholding of state aid distributions. Since FY2000, Medway's Schedule A has been filed late, ranging between three and six months after the due date. Because Medway filed its FY03 report in late April 2004, its third-quarterly state aid distribution of \$1,755,682 was withheld for a month.

The accountant prepares the town's balance sheet and supplemental materials (e.g., reconciliation of cash and receivables, detailed submission of all fund balances indicating none are overdrawn, and a statement of any deficits that have to be raised) for DLS, which are used to certify the community's free cash. Failure to reconcile cash and all receivables as of June 30 can result in free cash not being certified or certified but with the amount approved by the Director of Accounts adjusted downward for non-reconciling amounts. According to town officials, the reconciliation process for its cash and receivables is not conducted until after the close of the fiscal year. Until this activity is completed, the town cannot submit its balance sheet, which according to our records generally is done in late spring. As a result of the most recent 6/30/04 balance sheet submission, Medway's free cash was -\$870,290, a balance that was negatively impacted by non-reconciling receivables, a revenue deficit, and overdrawn capital projects.

Lastly, the community annually submits a tax recapitulation sheet when setting its property tax rate. While this report is the legal responsibility of the assessors' office, its completion and submission is a cooperative effort of all the financial officers. As a quarterly tax community, failure to submit a completed report with a balanced budget and within the limits of Proposition 2½ by December 31st can result in a late tax bill that is not due and payable until May 1st. As Medway experienced in FY05, the failure to set the tax rate timely required them to issue \$5 million in revenue anticipation notes (RANs) at a cost of about \$30,000. When the tax rate was submitted, the town had not submitted its balance

sheet and was required to submit a statement that to the best of the accountant's knowledge no deficits existed. Unfortunately, this statement to the Director of Accounts was false and he subsequently informed Medway that future approvals of the annual tax recapitulation sheet and the balance sheet are subject to the submission of a completed private audit for the prior fiscal year.

RECOMMENDATION 10: PROVIDE TIMELY REPORTS & RECONCILE ALL ACCOUNTS REGULARLY

DOR recommends that the accountant's office prepare and distribute monthly expenditure reports.

This includes all accounts in the general, special revenue and grant funds. Department heads should review these reports to ensure accuracy, identify any variances with internal budget records, and meet with the accountant to reconcile any differences. Also, the administrator and policymakers should receive a full set of reports.

We recommend that a priority be placed on the achievement of in-house financial activities and on the completion and timely submission of required DLS reports.

In-house expenditure reports, revenue reports and trial balances, as a rule, should be completed on a monthly basis within 15 days of the close of the month. Subsequently, the accountant should reconcile budgets with departments and cash and receivables with the collector/treasurer. Frequent reconciliations make it easier to locate and correct posting errors, minimizing the additional workload at year's end. Regular cash and receivables reconciliations enable these offices to verify that revenues reported and resulting receivable balances are accurate, thereby ensuring the cash and assets of the community are safeguarded. Finally, the accountant should make every effort to file the Schedule A with DLS by the October 31 annual deadline, avoiding potential delays in state aid distributions.

DOR recommends that the accountant monitor departmental expenditures and prepare a detailed analysis of the projected year-end results at least monthly. Based on departmental spending patterns, the accountant should be able to reasonably estimate annualized spending for the town. In addition, the accountant should review historical spending information and discuss the timing of large purchases with department heads to help refine projections. Comparing these projections to the budget will enable the accountant to identify potential problems early and to avoid deficit spending. This information should be distributed to the town administrator and department heads so that corrective action may be taken and distributed to the policymakers to keep them informed.

FINDING 11: REVIEW SPECIAL ACCOUNT AUTHORIZATIONS AND BALANCES

In reviewing the town's financial statements, we noted that Medway has a variety of special revenue and grant accounts. For most of the accounts listed, we were able to verify the legal authorizations and that the account balances (as of 6/30/04) were positive or documentation existed that explained an overdrawn balance. There are some accounts about which we have concerns.

- Revolving funds – According to officials, the town established tree and sidewalk revolving funds to deposit donations in lieu of work being done in connection with development projects. By definition, a revolving fund (MGL Chapter 44 Sec53E1/2) is established for departmental receipts received in connection with the programs supported by such revolving funds. It is DOR's opinion that there is no program being operated by a department for which it charges a fee. Hence, these are not legal revolving funds.

- State and federal grants – In reviewing Medway’s financial statements over the last couple of years, the town has received many grants for specific purposes. Most accounts reflect activity from year to year, while others are unchanged, and worse, some reflect overdrawn balances. It is our concern that the purpose of the overdrawn grant accounts is completed and no further revenue is anticipated. Therefore, the town may have account deficits that will need to be provided for by town meeting.
- Ambulance enterprise fund – In reviewing the enterprise fund revenue, expenditure and fund balance reports, we found some irregularities. First, we found the revenues reported do not correspond to the outside consultant’s turnover of collections. Second, we found expenditures were charged to the department that were not budgeted, including indirect and debt service costs. And lastly, we were informed that interest income on the enterprise’s revenues is not retained in the fund as required by statute, but instead is closed to the general fund.

RECOMMENDATION 11: REVIEW SPECIAL ACCOUNT AUTHORIZATIONS AND BALANCES

We recommend that the accountant review all special revenue accounts and enterprise funds for legal compliance. The accountant should verify that each account has been properly established by special or general enabling legislation. Any account determined to lack proper legal authorization should be adopted or closed to the general fund. Accounts that have been properly authorized should be scrutinized to ensure that they are fully in compliance with the relevant rules and regulations.

We recommend that the accountant contact all departments to verify the current status of each grant and require a copy of any active grant be submitted in compliance with MGL Chapter 41 §57. If the grant is active, then the department has complied with state law. If the grant is completed, the accountant will have to investigate how to handle any residual balance appropriately or request that town meeting provide for any account deficit balances.

FINDING 12: ADOPT MGL CHAPTER 41 §49A

While Medway has an assistant accountant position, it is in title only. Currently, the assistant’s job responsibilities are predominantly clerical and she participates in no external reconciliations. Also because of her limited experience, she currently does not have the training necessary to assume all the responsibilities of this office. Furthermore, according to the town, it has not adopted the state MGL Chapter 41 §49A, legally enabling an assistant to act in the department head’s absence, including signing the warrant.

RECOMMENDATION 12: ADOPT MGL CHAPTER 41 §49A

We recommend that the town adopt MGL Chapter 41 §49, legally providing for the appointment of a professional assistant accountant. Given the growing complexities of municipal finance, increasingly, communities are appointing assistant accountants, trained in all aspects of the office. An assistant should possess good accounting skills and demonstrate knowledge of Massachusetts municipal finance laws, regulations, procedures and concepts. With proper training, the assistant would have the authorization to act in the accountant’s absence, including signing the warrant.

ASSESSING OFFICE

An elected, part-time, three-member board of assessors oversees the assessing office. The staff consists of an administrative assessor/appraiser and two full-time clerks. The assessing office is responsible for maintaining assessment data on approximately 5,000 real property parcels, 375 personal property accounts, 14,000 motor vehicle excise accounts, and 180 betterment accounts. In addition, the office processes approximately 600 building permits, 360 deed changes, 150 exemptions, 25 abatements (70 in recertification year), and eight tax deferrals annually. The assessing office prepares timely reports for DOR, including new growth, taxable parcel count and recertification of value reports.

The current administrative assessor/appraiser was hired in May 2003. The administrative assessor/appraiser performs fieldwork, measuring and listing improved properties and inspecting all sale properties, and maintains the town's assessment records. The administrative assessor/appraiser determines property values and compiles property tax commitments. The clerks maintain all records, process deed transfers, handle exemption and abatement applications, data-enter property and legal information on the CAMA system, handle the motor vehicle excise accounts, and respond to public inquiries.

Acquired in 2000, the town uses a CAMA system to manage its property database. There are three personal computers connected to the CAMA server for staff use. An additional stand-alone computer located on the counter also has property data information for public viewing. The personal computers have Microsoft software products installed and these computers are connected to the Vadar System for transferring exemption and abatement information.

FINDING 13: MAINTAIN CURRENT VALUES

Annually, the administrative assessor/appraiser inspects new, improved, and sale properties in order to capture new growth and increase the town's tax levy. Triennially, the administrative assessor/appraiser generally performs an in-house revaluation of residential properties. Medway also uses the services of an appraisal consultant to update the commercial and industrial values and recollect and value personal property accounts, costing the town about \$15,000. In the intervening years, the administrative assessor/appraiser also prepares detailed analysis of sales data and income & expense statements in order to make interim year adjustments to values, complying with requirements of MGL Chapter 59, Section 38 to maintain full and fair cash values. However, because the town does not have a cyclical inspection program, the town has a full measure and listing of all parcels completed once every nine years, complying with the Bureau of Local Assessment's guidelines. The last full measure and list was completed in FY03 and cost the town over \$200,000.

Based on the FY03 recertification results, BLA recommended that the town adopt a cyclical reinspection program. A cyclical re-inspection program involves completing an interior and exterior inspection of all town property over a specific time period, not exceeding nine years. This program would allow the town to maintain the most current property database, making sure all taxpayers are assessed fairly and minimizing the number of abatements granted. A cyclical program also is advantageous since it allows a community to spread a substantial workload and cost over a multi-year

period. Unfortunately, as a result of the town's budget gap, one of the clerk's positions was not funded in FY06. Because it is a revaluation year, the assessors felt it was necessary to retain the second clerk in order to ensure the project is completed and the tax rate is set timely. The assessing office has chosen to assume additional work normally performed by outside consultants, thereby freeing up funding necessary to keep the second clerk in the office. If the FY07 budget is level-funded, the assessing office staff will be reduced to two, the administrative assessor/appraiser and one clerk. This may present a challenge for the office to perform routine activities and conduct future revaluations. Without the second clerk, it is doubtful the assessor would have the available time to conduct cyclical inspections.

RECOMMENDATION 13: MAINTAIN CURRENT VALUES

We recommend that the town adopt a formal cyclical re-inspection program. A cyclical re-inspection program encompasses a complete interior and exterior inspection of all real property over a multi-year period. The primary benefit of this program is that it will provide the assessors with current, accurate data. Beyond inspecting sale properties, improved parcels, and reviewing real property abatement requests, scheduling additional properties for inspection annually will enable the office to complete a full re-inspection by FY12 without the added cost of a full list and measure contract.

In order for the administrative assessor/appraiser to focus his attention on data collection, quality review, and analysis, the town should restore the second clerk position in the assessing budget. In addition to the routine administrative activities of the office, the two clerks would be responsible for all property data entry, building sketches, and generating edit and other CAMA system reports. The clerks would also be responsible for monitoring the town's commercial and industrial businesses, using all available resources to identify new business and obtaining complete form of list reports annually. Consequently, with adequate staff support, the assessing office could perform more assessing work in-house, reduce the town's revaluation costs, and be more directly accountable for producing property values.

FINDING 14: ADOPT ACCELERATED NEW GROWTH & SUPPLEMENTAL TAX BILL OPTIONS

Given recent events, Medway is exploring ways of improving its fiscal stability. As a growing community, there are two local option statutes that may assist the community in improving its revenue outlook.

MGL Chapter 59 §2A(a) is a local option statute that allows a community to value and assess new growth (e.g., new construction or other physical additions to real property) occurring by June 30 for the fiscal year beginning July 1, referred to as accelerated new growth. This allows the community to assess improved parcels, which ensures the property owner is paying his fair share of the cost of government operations for the fiscal year beginning July 1 rather than a year later. This would require adoption by town meeting vote, becoming effective in FY07.

A community also may make pro rata assessments on the value of improvements that are greater than 50 percent of the billed value when an occupancy permit is issued after January 1 (MGL Chapter 59 §2D), referred to as the supplemental tax assessment on new construction. This provision allows a community to issue a bill (back to the date of occupancy between January 1-June 30) on qualifying

property improvements, resulting in additional general revenue. These improvements would be included in the subsequent year's new growth calculation. Adoption of the supplemental tax billing is mandatory unless rejected by the selectmen and may be implemented in FY06.

RECOMMENDATION 14: ADOPT ACCELERATED NEW GROWTH & SUPPLEMENTAL TAX BILL OPTIONS

We recommend that Medway adopt MGL Chapter 59, Sections 2A(a) and 2D. These local option laws will provide additional taxable levy and general revenue for funding the town's operations as well as require additional work of the assessors. Upon adoption of the supplemental tax bills in FY06, it will require the assessors to identify all real properties for which an occupancy permit has been issued since January 1, conduct inspections to determine if the value of improvements is greater than 50 percent of the current billed value, and prepare the billing commitment for the collector. With the adoption of accelerated new growth effective in FY07, the assessors would have to identify all the additional improved properties that will have to be inspected prior to setting the tax rate by December 2006. For those properties with a potentially significant change in condition (i.e., destruction or new construction), the assessors may adjust the estimated tax bill amount, minimizing the impact of the final tax liability for the property owner (actual tax bill). In order to do this, the assessors would have to identify the potentially affected properties and adjust the preliminary tax notices before their July 2006 issuance.

TREASURER/COLLECTOR'S OFFICE

Since 2001, Medway has had three different persons serving as the treasurer/collector³. During a brief period last fall and the current vacancy, the former treasurer/collector, who retired in 2001, returned to town service in an interim capacity and/or consulting basis⁴. Currently, the office is budgeted for a treasurer/collector, an assistant treasurer, and an assistant collector, having lost a payroll clerk position due to Medway's tight financial position. On the treasurer's side, the office is responsible for payroll, employee benefits, and cash management, including the investment, disbursement and borrowing of cash. The assistant treasurer receives departmental turnovers and generally would immediately post them to the computer. However, due to some computer system conversion delays, she only began posting these receipts to the Vadar System in December 2004, and, reportedly, she has completed the posting of all FY05 receipts. The assistant treasurer makes the bank deposits and prepares treasurer's receipts reports weekly.

On the collection side, the office is responsible for collecting approximately 5,375 property tax bills quarterly, 14,000 motor vehicle excise bills annually, 4,030 trash bills annually, and 3,870 combined water and sewer bills semiannually. This office also prepares about 750 municipal lien certificates annually and collects parking tickets. The town's deputy collector prints and mails the excise bills and the town prints and mails all the remaining bills. The town receives payments by escrow service, mail, and at the counter. According to the staff, about 60 percent of the real estate bills are received from escrow companies, and the assistant collector processes the rest of the bills manually.

The town's real and personal property tax collection rate in the year of commitment is about 98 percent. Once a real estate tax bill becomes past due, the assistant collector issues a demand notice. Unfortunately, over the last couple years, tax title takings were not completed if the demand notices did not result in payments. To address a growing receivable balance, Medway issued letters to owners with outstanding amounts about the town's plan to initiate tax takings. Because many paid outstanding amounts and others entered into formal payment plans, the town made only six new tax takings in June 2005. For all properties in tax title, the town is using an outside attorney to pursue foreclosure remedies.

The treasurer/collector's office uses the services of a deputy collector for past due motor vehicle excise bills. The town gives him a warrant and he completes online license and registration markings for non-renewal status with the Registry of Motor Vehicles. The deputy collector deposits all receipts into a town account and prepares weekly turnover reports.

FINDING 15: MAINTAIN THE CASH BOOK AND RECONCILE CASH TIMELY

The cash book is the source of original entry for recording receipts and deposits, disbursements summarized by warrant, and the total cash position of the town. A cashbook provides control that enables the treasurer to reconcile with bank statements, cash on hand, and the general ledger

³ Previously an elected position, this post has been a selectmen's appointment since 2004.

⁴ Because she currently is an elected assessor for the town, she may not serve as treasurer/collector because it is prohibited by MGL Chapter 41 §24.

balance on a monthly basis. Since many of the accounting records flow from this source document, the cashbook is legally considered a permanent record.

The treasurer's office maintains the cash book in a series of spreadsheets. Medway has about 55 bank accounts, including depository, checking, and special accounts for various purposes. These accounts also include a number of performance bonds that were deposited in passbook accounts, which can require time-consuming visits to bank branches to update the interest income monthly. Based on copies of the cash book between February-June 2005, we found the information generally is posted daily (in chronological order) and all but three (one depository and two checking) accounts consistently reconcile with the bank statements.

According to the staff, the variances in the accounts generally are due to deposits in transit and uncashed checks, however no evidence was provided that any attempts to identify the variances were made. Of particular concern to us was the in excess of \$9 million variance in each of the checking accounts by the end of February 2005. Upon closer inspection of these accounts' entries, we discovered a systematic problem. While the office had transferred funds from its depository or money market accounts to the checking accounts in anticipation of paying the bills and payroll approved by warrant, the actual warrant expenses were never entered into the cash book. Consequently, these missing entries contributed to increasing monthly variance with the bank's balances. We informed the town about the missing entries and the assistant treasurer is in the process of making these corrections. Once completed, the office may reconcile its cash with the accounting office, which historically is done only after the close of the fiscal year.

RECOMMENDATION 15: MAINTAIN THE CASH BOOK AND RECONCILE CASH TIMELY

We recommend that the treasurer and the accountant conduct prompt, monthly bank and cash reconciliations. Shortly after the end of each month, the treasurer's office should internally reconcile the cash book to all bank statements. The treasurer should oversee this process to ensure that the assistant completes this activity timely. Once reconciled internally, the treasurer's office should reconcile with the accountant's general ledger, ensuring funds are not missing and financial records are correct. Prompt and frequent reconciliations are essential in order to maintain control over cash.

We recommend that the treasurer reduce the number of bank accounts and eliminate the passbook accounts. While a revenue source or fund type may need to be accounted for separately, there is no requirement to keep separate bank accounts for each. When fund balances are combined, the treasurer may improve the earnings on investments. More importantly, reducing the number of accounts—especially passbook accounts that require bank visits to update the balance—may reduce the time required to maintain and reconcile them.

We recommend that the office research the returned or unclaimed checks, commonly referred to as tailings. The tailings may include checks issued to pay employees and vendors, refund municipal taxes or charges, or pay other municipal obligations. Any check that is not cashed within three years of issuance is deemed abandoned under MGL Chapter 200A §5. A municipal treasurer holding abandoned checks may turn them over to the state treasurer (Chapter 200A §7). Alternatively, the treasurer may advertise the unclaimed checks herself and hold hearings to settle any claims (Chapter

200A §9A). Having complied with all legal requirements of Chapter 200A, any remaining unclaimed monies are credited to the municipality's general fund.

FINDING 16: IMPROVE THE COLLECTION PROCESS

About 40 percent of the real estate tax bills, and all personal property taxes, motor vehicle excise, trash, and water/sewer bills are received at the collector's office, mostly in the form of checks. Medway does not benefit from the automation offered by lockbox or Internet-based payment services or from a scanning device because Vadar Systems advises its clients not to purchase one. Consequently, as payments are received over the counter and by mail, the type of payment is marked on the bills, collections are tallied daily, and the receipts are turned over to the treasurer for deposit in the bank. Payments generally are posted to the taxpayer's account daily, however during heavy collection periods or when the assistant collector is absent from the office, the postings are made as time allows or when the assistant collector returns. Reportedly during FY05, the assistant collector was on a six-week medical leave, during which no postings were made.

It is also important to note that historical data was not transferred to the Vadar System. Adding to this situation, the town currently maintains multiple collection record keeping systems. Bills committed since 7/1/04⁵ reside on the Vadar System. All data that predates July 1, 2004 is stored on the aging Data National system, for which there is no service and maintenance contract, in individual excel spreadsheets, or manually.

Tax and excise bills located on the Vadar System are posted to the appropriate accounts, while bills located on the Data National system have been posted to a spreadsheet the assistant collector created, which tracks all off-Vadar payments chronologically. Given the town's concerns about the continued reliability of the Data National system, the town has extracted all the receivable files off the Data National system into a series of Excel spreadsheets. These entries still need to be verified and then combined with the collections taken in since 6/30/04, all abatements granted, and the tax title files to determine the current status and balance of all these outstanding amounts as of 6/30/05. Once completed, the collector will be able to reconcile her balances with the accountant's office.

All trash and water/sewer payments are accepted at the treasurer/collector's office. The collector matches the payments to the bills and turns the cash over to the treasurer for deposit. However, because of the limited staffing, the bill copies and a report of how much was collected are sent to the water/sewer department where payments are posted to the users' accounts.

RECOMMENDATION 16: IMPROVE THE COLLECTION PROCESS

We recommend that Medway contract for lockbox and Internet payment services. A number of financial institutions offer lock box services to collect tax or other payments by mail and process the payments through their collection system on a rate per piece basis to the community. Similarly, an Internet payment service enables taxpayers to access their bills on-line and make payments, using an electronic check or credit card for a fee imposed by the service upon the user. Both services deposit payments into a municipal bank account and return daily electronic receipt reports to the client

⁵ This includes all outstanding water/sewer/trash bills as of 6/30/04, which were liened onto the FY05 actual bill.

community. To post the payments, the town reviews the file, and if it reconciles to the deposit information, uploads information to its accounts receivable software.

As a major benefit, these services free-up staff time by reducing over-the-counter and mail payments at the collector's office. The process makes posting automatic, accelerates deposits, makes funds available sooner, and improves investment earnings. Additional interest earned and efficiencies gained help offset the cost to the town for the service. However, a successful lockbox and Internet payment service also relies on a certain amount of public relations. The town should seek ways to inform the public and encourage their use of these services in returning tax and other payments.

We recommend that all staff be trained to post payments at the time of receipt. If the assistant collector is absent for a brief or extended period of time, other staff in the office should be trained to posts payments, avoiding a backlog of work and ensuring that all collections and/or outstanding amounts are reflected accurately in the general ledger in a timely manner. The collector's office also should be responsible for posting all trash and water/sewer payments received to the appropriate customer's utility account, ensuring payments are posted when received rather than the current practice of forwarding bills to another department.

We recommend that the collector/treasurer and accountant conduct prompt, monthly receivable reconciliations. It is best that these activities be prioritized and completed immediately after the close of the month rather than putting them off to a later time, potentially facing non-reconciling items that could delay and/or impact the certification of free cash.

We recommend that the town have the old receivable and tax title accounts entered into the Vadar System. Given the limited staffing in the office and because the off-system spreadsheets can be cumbersome to manage and keep, it would be advisable that the town have the staff trained or contract out to have the older data entered into the Vadar System, creating a complete, central collections system.

FINDING 17: ATTEND PROFESSIONAL CLASSES AND PROVIDE CROSS-TRAINING

The assistant treasurer has been employed in the office for about two and a half years, serving as the assessors' administrative secretary previously. The assistant collector has been a member of the staff for ten years but in her current position for about three and a half years. Over the years, the assistant collector received some training on collection procedures, however, since becoming the assistant she has not received formal training on her new responsibilities such as preparing tax takings and performing reconciliations of receivables. Similarly, the assistant treasurer has not received any formal training on the activities of the office. Her current responsibilities include overseeing the receipt collections and deposits, maintaining the cashbook, and reconciling bank statements. Neither assistant has training in the other's duties and both are sharing payroll and benefits administration responsibilities at the present time.

RECOMMENDATION 17: ATTEND PROFESSIONAL CLASSES AND PROVIDE CROSS-TRAINING

We recommend that the assistants attend professional training classes. An assistant should be fully trained to assume the role and responsibilities of the treasurer/collector in his/her absence, thus

preventing unnecessary interruptions or delays. To assist in this training process, Medway should consider having the assistants attend training workshops and/or the four-day annual school provided by the Massachusetts Collectors and Treasurers Association.

We also recommend that the staff be cross-trained on all operations performed in the office. With adequate training, staff will be able to provide assistance during high-demand times and as well as fill in during brief or extended absences of office staff.

ACKNOWLEDGEMENTS

This report was prepared by The Department of Revenue, Division of Local Services.

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